

Index Consultation Regarding the Extraordinary Replacement Rules of the
Nikkei Stock Average

As the most popular measure of the Japanese stock market, the Nikkei Stock Average (Nikkei 225) has been widely used not as a barometer of the market but for financial products. Rapid increase in the assets linked to the index as a background, Nikkei is planning to make changes to its “Extraordinary Replacement Rules” and consults market participants and users on the subject matter as follows.

1. Timing of the constituents change in case of designation as “a security to be delisted”
[\[Constituent Selection Rules 3\(3\)\]](#)

Under the current rule, when a constituent is designated as a stock to be delisted unexpectedly, such a stock is deleted from the index on the next day, and an addition is made usually 2 days after the designation. Under the new rule, deletion and addition will be made after 5 business day of its designation. However, for extraordinary replacement due to other events such as merger, share transfer, share exchange or transfer to the 2nd section of the Tokyo Stock Exchange, current rule applies, and the replacement takes place on the day of the event of deletion.

| Current Rule | Proposed new rule |
|--|---|
| In principle, constituents are changed on the day when the event to delete the constituents takes place. However, to make the news of the constituents change widely known, time may be taken before the changes become effective, especially when the event such as bankruptcy happens suddenly. Also, additions are made after some period of time in principle. | In principle, constituents are changed on the day when the event to delete the constituents takes place. However, when a constituent is designated as “a security to be delisted”, such a constituent is removed, and a new constituent is added after 5 market business days of such designation. Exact effective date is announced when the event takes place |

2. Response to the constituents designated as “a security under supervision”

[\[Constituent Selection Rules 3\(1\) Second paragraph\]](#)

Currently, a constituent designated as “a security under supervision” becomes a deletion candidate. Nikkei makes announcement of the fact and usually keeps it as a constituent at the time of designation. Under the proposed new rule, such constituent remains to be a member of the index. However, when it is highly likely to be delisted, e.g. successful completion of TOB to make it a wholly owned subsidiary, such constituent may be replaced before the stock is designated as “a stock to be delisted”. Nikkei makes pre-announcement when this rule is applied.

| Current Rule | Proposed new rule |
|---|--|
| The constituents designated as “securities under supervision” become deletion candidates. However, decision to delete such candidates will be made by examining the sustainability and the probability of delisting of the individual case. | A constituent designated as “a security under supervision” remains to be a constituent at the time of designation. However, Nikkei may replace such a constituent with pre-announcement when it is highly inappropriate to keep the stock as a constituent, e.g. probability of delisting is extremely high. |

[Question]

Do you agree to the following proposed changes?

1. “Timing of the constituents change in case of designation as “a security to be delisted”
2. “Response to the constituents designated as “a security under supervision”

Please submit your opinion from the form on the following consultation URL.

https://www1.entryform.jp/nikkei_consultation_2020_01e/

Consultation closing date: June 8, 2020

Although your contribution to this consultation is respected, Nikkei makes a decision at its own discretion. The result of the consultation will be announced as a formal announcement of the new rules. Your contribution will not be published although a summary without identity may be used in our documents.

Contact: <https://indexes.nikkei.co.jp/nkave/contact>